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The present analytical report was prepared by the Research Department of the Eurasian Development Bank (EDB). The information and conclusions contained in this report are not a recommendation and are based on public data.

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Macroeconomics of the region

Due to the escalation of the Eurozone debt problems, Q3 2011 was notable for increased turbulence in the financial markets. After the markets had absorbed the Greek sovereign debt risks, which entailed great losses for creditors, the crisis started to gradually spread to other economies with relatively weak public finances. The deterioration of the economic situation in developed countries began to affect international trade: after a rise of 1.4% in August 2011, the volume of global trade fell by 1% in September, while developing countries' exports decreased by 2.3%. China’s economic growth in 2011 was noticeably lower than in 2010, due to a decline in external demand negatively affecting investment and exports. In November there was a considerable decrease in China’s exports compared with October, while the tightening of monetary policy led to a decline in investments.

The economies of the CIS countries increased their growth rates. According to preliminary data, from January to September 2011, the average weighted GDP growth in the region was 4.5%. Turkmenistan had the highest economic growth rate at 14.6%, while Azerbaijan had the lowest growth rate at 0.5%. A noticeable result of Q3 was high growth rate in the agricultural sector. Agricultural output increased by 14.7% year-on-year against a year-on-year decrease of 10.1% in 2010. However, the growth rate of industrial output slowed down in most of the CIS member countries, with Armenia, Kyrgyzstan and Moldova being the exception. The construction and financial sectors began to show signs of revival in Q3 2011. In the first nine months of the year there was a rise in housing construction in Azerbaijan, Kazakhstan, Moldova and Russia. During the same period the annual rise in lending in the region averaged 25.4%. Impressive growth rates of fixed capital expenditures and an upturn in consumer activity indicated the general restoration of demand.
Rise in exports fueled economic growth of oil- and gas-exporting countries

Rise in cash remittances stimulated the economic growth of labor-exporting countries

Net capital outflow was observed in the balance of payments account of the region

The foreign exchange reserves of CIS central banks increased by 6.7% in the first 10 months, but fell by 2.5% in the last 4 months of 2011.

The dynamics of current account balances were again determined by the impact of a favorable situation in the commodity markets on the trade balances of oil and gas exporting countries, such as Russia, Kazakhstan, Turkmenistan and Uzbekistan. At the same time a rise in the price of petroleum products and food led to deterioration in the trade balances of oil and gas importing nations, including Armenia, Kyrgyzstan, Moldova, Tajikistan and Ukraine. However, for these countries, the effect of the rise in import prices was to a certain extent reduced by the high prices of their major export items, such as gold, aluminum and cotton. Simultaneously, the economic growth of Russia and Kazakhstan had a favorable impact on the inflow of cash remittances by labor migrants. The nations that are most dependent on cash remittances from abroad received additional opportunities to finance their trade deficits. According to data from the Bank of Russia, the dollar value of the volume of cash remittances from Russia to other CIS countries in the first nine months of 2011 was 39% above the level during the same period in 2009 and 2010.

The balance of payments account of the region in the first half of 2011 was notable for a net capital outflow of $27.6 billion. The net outflow (the current account excluding changes in central bank reserves) totaled 2.6% of the region’s half-year GDP. For example, $33.3 billion was transferred from Russia, $4 billion from Kazakhstan and $2.7 billion from Azerbaijan. In other countries, there was a net inflow of capital. In the first half of the year, foreign direct investment totaled $4.2 billion in Kazakhstan and $3.2 billion in Ukraine.

The capital outflow, and increases in export revenue and cash remittances, had different effects on the gold and foreign exchange reserves, and on the competitive capacity indicators of the CIS countries’ exports. As a result, in terms of balance of payments, the reserve assets of the central banks in the region increased by $37.9 billion in the first half of 2011. The largest increases in foreign exchange reserves occurred in Azerbaijan (26.6% of GDP) and Kazakhstan (6.9% of GDP). In Armenia the reserves decreased to 3.4% of GDP. From January to September 2011, the real effective exchange rate (REER) of the Russian ruble rose by 7%, whereas the REER of the Belarusian ruble fell by 15.1%.

Figure 1.3. **Foreign trade**: Trade balance (in percent of GDP)

Figure 1.4. **Cash remittances by individuals**: from Russia to CIS countries (in percent of GDP)

Source: CEIC data, national agencies

Source: Bank of Russia
The revival of economic activity had a favorable effect on the performance of the fiscal system in the CIS countries. Despite a rise in social payments and pay increases, many countries had a budget surplus or saw budget deficits narrow considerably. This result is partially linked to the specific nature of the public budgeting process, as major expenditures under the expenditure plan are made at the end of the year. That is why the impact of the increased social payments and other public expenditures on the economy and, in particular, inflation, can be more accurately assessed at year end.

Inflationary pressure was caused by both a surge in world food and energy prices in 2010 and early 2011, and by a stimulating monetary policy. It eased to some extent in the second half of the year due to the central banks tightening their policy, and also due to the decline in world food prices. As a result, the rise in prices slowed down significantly in almost all of the CIS countries. Given these positive changes, it is quite likely that the inflation targets set by the central banks will be met in many of the CIS countries. The greatest success in curbing inflation was achieved in Armenia, where the annual rate of price growth reached 11.5% in March and then fell to 4.8% in November. The average inflation rate in the region, excluding Belarus, fell from 11.4% in June to 7.1% in November. In Belarus a continuous lending expansion led to an annual inflation rate of 106% in November.

A positive fact was a revival of commercial banks’ lending activity, which was encouraged by the increased consumer activity of households. In September, the annual growth rate of loans stood at 25.3% in Russia and at 12.4% in Kazakhstan. Companies increased their investment activity, but it remained low compared to the period preceding the 2008 crisis, which was caused by the persistence of credit risks and a lack of confidence from the private sector. The share of non-performing loans in the CIS countries’ banking sector portfolios still remains large.
The United Nations lowered its forecast for global GDP growth to 2.8% in 2011 and 2.6% in 2012.

The central banks of developed countries plan to loosen monetary policy.

Under the conditions of uncertainty and volatility in the world economy, it is necessary to follow a balanced macroeconomic policy.

In the second half of 2011, many experts revised downward their forecasts of the global economic growth rate. The Organization for Economic Cooperation and Development (OECD) lowered its forecast for 2012 from 4.6% to 3.4%, with its forecast for 2011 being 3.8%. The United Nations expects the world GDP to grow by 2.8% in 2011 and 2.6% in 2012. The declining growth rate of global trade, which the OECD predicts to fall from 6.7% in 2011 to 4.8% in 2012, should produce a negative effect on developing economies in Asia, which are currently the driving force of the world economy. There was more positive news in November about measures undertaken by the central banks of developed countries to stimulate their economies. The European Central Bank, the Bank of England and the Federal Reserve System are expected to take further measures at the beginning of 2012. Despite this, it is evident that the problem of public debt in developed countries will be gradually and painfully being resolved during the next few years.

The average weighted consensus forecast of the CIS countries’ GDP in 2012 is 4.6%. The highest growth rates in 2012 are expected in Turkmenistan (8.4%) and Uzbekistan (7.4%), and more moderate rates are expected in Belarus (3%) and Russia (4.1%). The serious risks threatening the further development of the region’s economies include the following:

- The general slowdown of the world economy will result in a fall in demand for the main export commodities of the region, such as oil, natural gas, cotton and metals.
- The rise in volatility and uncertainty will negatively affect the investment activity of the private sector. As a result, consumption and public investment will remain the key factors driving demand.

The prospects for the world economy are uncertain, and therefore the most important priority for the economies of the region is to pursue a balanced macroeconomic policy. In particular, a relatively flexible exchange rate system will help alleviate the impact of external shocks. The control of the growth of the money supply will make it possible for the central banks to prevent the economies from overheating, which will reduce their vulnerability to these shocks.

Figure 1.7. Economic growth (GDP growth): forecasts by national and international institutions (in percent)

Figure 1.8. Savings and investment (in percent of GDP): balance of private investment and savings (Sp-ip), state budget (Sg-Ig), current account (X-M)

Source: estimates by the IMF, the EBRD, the World Bank, the CIS Statistics Committee, national agencies and the EDB

Source: national agencies, estimates and forecasts by the IMF and the EDB
Azerbaijan: An economic slowdown amid a decline in industrial output

The second half of 2011 saw a continued economic slowdown in Azerbaijan. The GDP rose by 0.3% in the first 10 months of the year, compared to an increase of 0.9% in the first 6 months. The main reason for the slowdown was a decrease in industrial output, in particular, a reduction in the oil and gas sector’s output. In the first 10 months industrial output decreased by 4%, while the production of oil and natural gas decreased by 9.1% and 2.7%, respectively. The decrease in oil and gas production was caused by lengthy shutdowns of oil platforms for engineering work on wells, which lead to the halting of extraction. At the same time there were positive trends in other sectors. For instance, agricultural output rose by 7.1%, retail trade by 10.4% and the volume of services by 7.4%.

Due to a decrease in the oil and gas sector’s output, exports continued to decline in the second half of the year. Crude oil and petroleum products accounted for more than 90% of all exports. During the first 9 months of the year, exports decreased by 7.1% compared to a decrease of 3.3% during the first 6 months. Meanwhile, the volume of imports kept rising. During the first nine months of the year, imports increased by 48.6%, with the rise showing some acceleration in the third quarter. The trade surplus fell to 37.2% of GDP from 38.8% recorded in the first half of the year.

During the first nine months of 2011, public revenues were 19.7% higher than in the same period of 2010. As before, the largest share of the revenues came in the form of taxes, which accounted for 45.3% of the total volume. Government expenditures were 27.7% more than in the same period of 2010, with social spending accounting for 27.6%. In the third quarter of 2011, public revenues increased by 30.5% and expenditures increased by 50.1% compared with the same period of 2010. Due to the decrease in oil revenues, the budget surplus decreased but remained positive. In the first nine months the budget surplus was 0.7% of GDP against 3.2% of GDP in the first six months of 2011.

During 2011 there was decline in inflationary pressure in Azerbaijan. This was mostly due to a decrease in food prices because of a good harvest – crop production rose by 10.6% year-on-year in the first nine months; as well as due to a fall in food prices on the global commodity markets. In November 2011, consumer price inflation stood at 6.1%, down from 8.2% in June. In October, consumer prices remained almost unchanged compared to September: food prices increased by 0.1%, non-food consumer goods prices increased by 0.4%, while prices for services increased by 0.5%.

The banking sector demonstrated positive trends in the third quarter of 2011. The growth rate of deposits was accelerated from 23.2% in June to 29.6% in September; while the growth rate of loans accelerated from 1.3% to 8.2% during the same period. The share of commercial banks in the total volume of loans grew from 62% in June to 64% in September, while the share of state banks shrunk from 35% to 33%. Trade and services remained the main borrowing sector, accounting for 29.8% of the total volume of loans. The quality of loans remained stable but slightly decreased compared with the middle of the year – from 6.2% to 6.4%.
Outlook
Azerbaijan: An economic slowdown in 2011, an acceleration in 2012

Due to the significant decrease in oil and gas production, the government and international organizations have considerably cut their forecast for Azerbaijan’s economic growth in 2011. According to government forecasts, by the end of 2011 resource output is predicted to be down by 10.2% from 2010. The government has therefore reduced its GDP growth forecast from 3.8% down to 0.9%.

International organizations also note that the decline in the industrial sector has an impact on general economic development, and forecast a significant economic slowdown in 2011. Their forecast economic growth rates for 2011 have been reduced as follows: The International Monetary Fund (IMF) reduced its GDP forecast from 2.8% to 0.2%; The European Bank for Reconstruction and Development (EBRD) from 3% to 0.5%; and the Asian Development Bank (ADB) from 5.8% to 3%.

It is expected that in 2012 economic growth will accelerate, with oil production returning to the previous levels, and the share of other sectors growing. The government estimates that GDP growth will hit 5.7% in 2012. In particular, non-oil GDP is forecast to rise by 8.6% against 7.9% in 2010, and non-oil exports by 21.3%. International organizations also expect an improvement in Azerbaijan’s economic situation in 2012. Their average expected GDP growth is 4.9%, with the IMF forecast at 7.1%, the EBRD at 4%, the World Bank (WB) at 4.1%, and the ADB at 4.5%.

The bulk of Azerbaijan’s GDP and public revenues originate from the export of energy resources. This explains the high dependence of the national economy on the situation in the oil and gas sector. From January to October 2011 oil extraction accounted for 53% of GDP. In the first nine months the transfers from the State Oil Fund of the Azerbaijani Republic (SOFAZ) to the state budget reached 45%. Risks associated with the excessive dependence on natural resources became even more obvious during the 2008 crisis, when there was a drastic decrease in oil prices. A strong impact on resource dependence could also be seen in 2011, when a large fall in production occurred in the oil and gas sector due to stoppages resulting from technical maintenance. As before, diversification is the main condition for the sustainable development of the Azeri economy in the mid- and long-term outlook. The national economy is extremely sensitive to the situation in the oil sector, including production volumes and prices. Therefore it is important to keep moving toward a balanced economic structure and reduce dependence on oil. According to the government’s forecast, Azerbaijan’s annual economic growth will average 6.3% in 2012-2015, with the main contribution resulting from a rise in the share of the non-oil sector. Despite the government’s optimism about the successful development of the non-oil sector, and its increasing role in general economic growth, it is uncertain that the nation’s non-energy industries will be able to ensure steady economic growth in the long-term.

The government expects 0.9% GDP growth in 2011 and 5.7% GDP growth in 2012

International organizations, on average, forecast GDP growth rate of 2% in 2011 and a growth rate of 4.9% in 2012

Given the dependence of the Azeri economy on oil, which accounts for 53% of GDP and 45% of government revenues, diversification will remain the most important task in the mid- and long-term.
Azerbaijan

Figure 2.1. Economic growth: GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the State Statistics Committee of Azerbaijan

Figure 2.2. Foreign trade: exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

Source: IMF, national agencies, EDB estimates

Figure 2.3. State budget: state budget balance, accumulated total (in percent of GDP)

Source: the CIS Statistics Committee and national agencies

Figure 2.4. Monetary sphere: the left scale - the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale - M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 2.5. Economic growth: GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the ADB, the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 2.6. Savings and investments (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
Economic trends in Armenia were generally favorable in Q3 2011. Economic growth had accelerated in Q2 to 3.6% compared with Q2 2010. It reached nearly 4.5% in Q3, according to the government’s preliminary estimate. The most significant contribution to general economic growth was made by the manufacturing and mining industries. The agricultural sector in Armenia, as in other countries of the region, had recovered from the recession caused by the 2010 drought; however the growth rate in this sector was not high - 3.9% at the end of Q3 2011. The construction sector was a main driving force of economic growth in the pre-crisis period, contributing 17% of GDP in 2010. It still did not resume an upward trend. This is one of the reasons why Armenia’s economic growth, despite its acceleration in Q2 and Q3, remained moderate compared to the average growth of 12.6 percent during 2001-2007.

Inflation accelerated sharply in late 2010 and early 2011 under the influence of a rapid rise in food and energy prices. In Q2 and Q3 2011 inflation slowed down due to both a fall in resource prices, and the steps taken by the central bank in Q1 to tighten the monetary policy. Consumer prices had negative or zero growth rates from April to August. As a result, the consumer price growth rate decreased from 11.5% at the end of March 2011 to 4.8% at the end of November 2011. This achievement allowed the Central Bank of Armenia to loosen its monetary policy by lowering the interest rate in Q4. The government forecasts the yearly inflation at the end of 2011 to be about 5%.

Armenia has a significant state budget deficit and a large current account deficit, which are the main risk factors for the economy. In 2010, these indicators were 5% and 14.7%, respectively. The government hopes to reduce the figures to 2.4% and 7.9% in 2014. Given a large capital inflow in the private sector (in the form of investments and loans) and a drastic increase in the public debt during the 2008-2009 crisis (which grew from 16.1% of GDP in 2007 to 39.9% in 2010), more decisive steps to consolidate the budget would be justified.

In the banking sector of Armenia there was a slowdown in the rate of loans provided to the economy: the nominal volume of loans issued in Q3 increased by 5.4% compared to Q2, relative to a rise of 10.4% in Q2, and 8.6% rise in Q1 of 2010. The decline in the loan growth has not yet produced a visible effect on the dynamics of the sustainability indicators of banks. In particular, the ratio of regulatory capital to risk-weighted assets continued to slowly fall and reached an all-time low. At the same time the ratio of liquid assets to the total assets of the banking sector slightly rose in Q3 2011 but was still lower than in 2010.
Outlook
Armenia: Recovery of high growth rate, solution of structural problems

In the last months of 2011, and even more so at the beginning of 2012, Armenia’s economic growth will be affected by a decline in lending activity. However, in the absence of global economic shocks comparable to the 2008 crisis, the impact will be moderate.

Our assessment of the longer-term prospects of the nation’s economy is generally optimistic. Given the fact that the economy shows a growth of 4-5% under the conditions of investment stagnation, especially in the construction sector, we expect a gradual rise in economic growth in Armenia to at least 6-7% if there is at least a moderate rise in investment.

If the central bank does not make unexpected mistakes, it will manage to keep the inflation rate at the current level of about 5% a year. As in many other countries, due to the current global economic situation, Armenia cannot expect a considerable capital inflow and a drastic rise in the prices of its exports. If unfavorable developments in the global economy do not undermine the sustainability of the Armenian economy to such a degree that a drastic devaluation of the national currency becomes inevitable, it is likely that such developments will make it easier for the central bank to control inflation.

The Armenian economy is experiencing a number of problems of a structural nature. One of them is persistent unemployment, which is apparently the highest in the region. According to the World Bank, the nation’s unemployment rate calculated according to the definition of the ILO was 28.6% in 2008, with the unemployment rate for people under 24 years being close to 50%. There is no data about unemployment measured by the ILO methodology for later years, and there is no reason to believe that the situation has improved.

Another structural problem is a constant balance of payments deficit, which is a source of risk for its economy. This risk may materialize in the event of a drastic decrease in capital inflow into the country, and a drastic fall in the prices of resource exports. This happened in 2008 and 2009, and it could possibly happen again. Currently, the government is less able to support the economy in the event of such a scenario because the nation’s public debt is much larger than in the period preceding the 2008 crisis.

Long-term solutions to these two problems appear to be: increasing the competitiveness of the national economy; reducing the degree of monopolies in the market; improving the conditions for businesses; and developing the transport infrastructure. Measures to increase the external sustainability of the economy include diversifying exports, more than 60 percent of which are currently metals and ore, and gradually reducing the nation’s foreign debt as a percent of GDP.
Armenia

Figure 3.1. **Economic growth**: GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the State Statistics Committee of Armenia

Figure 3.2. **Foreign trade**: exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

Source: IMF statistics, national agencies, estimates by the EDB

Figure 3.3. **State budget**: accumulated total (in percent of GDP)

Source: the CIS Statistics Committee, national agencies and estimates by the EDB

Figure 3.4. **Monetary sphere**: the left scale is for the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale is for M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 3.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the ADB, the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 3.6. **Savings and investment**: (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
Belarus: Trade deficit persists, inflation goes out of control

The economic situation in Belarus did not experience major changes in the third quarter of 2011. There was an acute balance of payment crisis caused by a deterioration of the conditions of trade, and the excessive stimulation of domestic demand.

Following a 36% devaluation of the national currency in May, the authorities took a number of measures aimed at restoring macroeconomic stability. During the summer and fall of 2011, the National Bank of the Republic of Belarus (NBRB) repeatedly raised its base refinancing rate, which increased from 14% in May to 45% in December. In addition, the NBRB stopped the direct financing of lending programs. On October 21, 2011, the economy returned to a single exchange rate set by stock exchange. The government managed to end the third quarter with a budget surplus of 2.4% of GDP. The government budget is likely to have a zero deficit in 2011.

Unfortunately, these measures proved to be insufficient to restore the stability of the economy, which is evidenced by a very high inflation rate. According to the National Statistics Committee, in 2011 consumer prices in Belarus rose by 108.7% compared to December 2010.

There was an improvement in the balance of payments due to the depreciation of the national currency; but it was not sufficient to stabilize the economic situation. There was a trade balance surplus of $642 million in Q3 2011, and also a significant deficit of current transfers caused by the return of taxes on oil and petroleum products to Russia, and other reasons. As a result the current account deficit continued, reaching $424 million by the end of Q3. Belarus remained dependent on external sources of finance, which was increasingly difficult to attract due to the growing foreign debt. Belarus’ gross foreign debt rose by $4.1 billion, or 14.5%, in the first nine months of the year to $32.5 billion, 54.8% of the country's GDP, as of October 1. During Q3 the NBRB’s international reserves remained at a low level, totaling $4.7 billion as of November 1, which worth slightly more than 1 month of imports.

Unfavorable factors in the economy started to affect the nation’s economic growth, which was high during the first half of the year. There was a 1.7% year-on-year increase in GDP in Q3 compared with an 11.4% in Q2 and a 10.9% in Q1. The largest falls occurred in industrial output, construction and fixed capital expenditures. In Q3 industrial output saw a year-on-year increase of 8.8% against an increase of 11.8% in Q1. In the construction sector, a 26.9% increase in Q1 turned into a 3.4% decrease in Q3.

Belarus’ GDP reportedly increased by 5.8% year-on-year in the first 11 months. The National Statistics Committee earlier reported a year-on-year GDP growth of 11% in the first half of the year and a 7% increase in the first 10 months.
Belarus: Limiting credit expansion, restoring macroeconomic stability

A key factor impeding macroeconomic stabilization in Belarus is the continued massive lending of the economy, especially within the framework of government programs. The scale of lending was slightly reduced in the summer and fall of 2011, when the National Bank ceased to directly participate in those programs. In the first 10 months, the total volume of banks’ lending to other economic sectors increased by 72% compared to the beginning of the year.

Economic developments in the country in 2011 showed that increased lending could not achieve the objective of supporting rapid economic growth. Economic entities are unable to increase their activity due to the very high inflation rate, and the depreciation of the national currency. Macroeconomic stabilization should therefore be the main priority for the authorities. A considerable reduction in the financing of government programs and, consequently, the restoration of control over money growth are a necessary condition.

The last few months of the year saw a number of important events that facilitated the task of restoring macroeconomic stability in Belarus. The July 1 abolition of customs controls at the internal borders within the Customs Union eased access to the markets of Russia and Kazakhstan for Belarusian companies. Belarus has a large export-oriented manufacturing sector whose competitive capacity is very high following the drastic depreciation of the national currency in 2011. It is better able to take advantage of the opportunities provided by the Customs Union than the other two member countries.

In addition, the Belarusian-Russian negotiations that were completed in late November resulted in an almost twofold decrease in the price of Russian natural gas for Belarus. According to media reports, the direct effect of this reduction on the nation’s balance of trade amounts to more than $600 million a quarter. Apart from this, the deal allowed Gazprom to acquire the other 50% of Beltransgaz for $2.5 billion, which was immediately paid by Gazprom. The deal’s effect on Belarus’ external account should have been extremely significant, and brought it much closer to a balance point as early as Q4 2011.

Even though the removal of trade barriers within the Customs Union, and the reduction in the gas price, had a positive effect on the external account, Belarus still needs to further tighten monetary and fiscal policies. If the government is consistent in its measures taken in these areas, and if it manages to attract capital into the country through privatization and successful cooperation with international organizations, such as EurAsEC, Belarus will be able to return to sustainable economic development, which is most likely to happen in 2013.

Lending within the framework of government programs remains at a high level

Given the current situation, a top priority is to restore economic stability

A number of events in recent months (the agreement with Gazprom and the abolition of controls at the internal borders within the Customs Union) facilitate the task of overcoming the crisis

The government should strengthen monetary and fiscal policies to improve the economic situation
Belarus

Figure 4.1. **Economic growth**: GDP change by sectors, accumulated total (in percent, year-on-year)

![Graph showing economic growth by sectors](image)

Source: the National Statistics Committee of Belarus

Figure 4.2. **Foreign trade**: exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

![Graph showing foreign trade and REER](image)

Source: IMF statistics, national agencies, estimates by the EDB

Figure 4.3. **State budget**: accumulated total (in percent of GDP)

![Graph showing state budget](image)

Source: the CIS Statistics Committee and national agencies

Figure 4.4. **Monetary sphere**: the left scale is for the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale is for M2 growth (in percent, year-on-year)

![Graph showing monetary sphere](image)

Source: IMF statistics (IFS), national agencies

Figure 4.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in percent)

![Graph showing economic growth and forecasts](image)

Source: national agencies, estimates by the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 4.6. **Savings and investment**: (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

![Graph showing savings and investment](image)

Source: national agencies, estimates and forecasts by the IMF and the EDB
The economy of Kazakhstan continued its steady growth in the second half of 2011. The nation’s GDP rose by 7.2% in the first 10 months, with main drivers of growth being external demand for Kazakh resources and domestic consumer demand. Industrial output increased by 4% and domestic trade by 14.7%. As before, the output rise in the manufacturing industry (6.9%) outpaced that of in the mining industry (1.9%). Despite general growth in the industrial sector, the rise in industrial output slowed in the second half of the year in comparison with the middle of the year. It was caused by a decline in oil production in July and August due to technical maintenance work in the Tengiz field, as well as workers’ strikes in several fields. At the same time, the economy was given a boost by a rise in agricultural output, which increased by 22.8% due to a record grain crop.

According to preliminary estimates, the current account surplus in the first nine months of 2011 was 7.6% of GDP, up from 3.4% in the same period of 2010. The growth of the current account surplus was caused by a rise in the value of exports. In September, the prices of Kazakhstan’s exports were 58.7% higher than in the same month of 2010, including the prices of exported commodities, which rose by 77.6%. However, Q3 saw a considerable decline in exports compared to Q2, which was caused by a decrease in world oil prices. The average price fell from $117 per barrel in Q2 to $112 in Q3. Due to an outflow of portfolio investments in Q2 and Q3, there was a capital and financial account deficit equaling 4.6% of GDP. Under these conditions, the National Bank of the Republic of Kazakhstan (NBRK) managed to increase its international reserves by $1.6 billion in Q3 against $1.1 billion in Q2.

During the 2011 fiscal sector indicators in Kazakhstan remained at a stable level. As before, the balance of the consolidated budget was in surplus. Thus, in the 10 months of 2011 consolidated budget surplus amounted to 11.9% of GDP. The main share of revenues still came from tax revenues, while main share of expenditures were targeted at social-related spending.

After the year-on-year rise in consumer prices reached its peak of 9% in August, it fell to 7.8% in November. As before, the main contributor to inflation was the rise in food prices, which increased by 10.2%, whereas non-food consumer goods increased in price by 5.3% and services by 7.2%. The price rise was reduced by a decrease in inflation pressure from world food prices, and the settlement of the problem of fuel shortages that occurred in the summer.

In the banking sector there remained mixed trends: lending activity continued to rise, but the quality of the loan portfolio did not improve. Quarter-on-quarter lending rate increased by 6.2% in Q3, compared to a rise of 3.5% in Q2. Nevertheless, non-performing loans (NPLs) still account for a major part of the banks’ loan portfolio (37.2% in October) while banks’ profitability considerably decreased – the RoA was -0.36 in October.
Outlook

Kazakhstan: Steady growth, non-performing loans, inflation

Given the continued favorable situation in the world commodities markets, as well as support of domestic consumer demand, we expect the positive trends in the economic development of Kazakhstan to continue in the mid-term future. According to the government’s forecast, the nation’s GDP is expected to grow by 7% in 2011 and 6.9% in 2012. As before, international organizations expect sustainable growth of the Kazakhstani economy considering the price stability in the resource market, which ensures the nation’s strong fiscal and external positions. International organizations, on average, expect GDP growth at 6.5% in 2011 and 6% in 2012. The EDB expects Kazakhstan’s economic growth to exceed 7% in 2011 and 8.6% in 2012.

Currently, one of the most urgent issues facing the Kazakh economy is the unresolved problem of the asset quality in the banking sector. Despite expectations, non-performing loans (NPLs) continue to grow in volume. In October 2011, their share in the total volume of loans was 37.2% compared with 33.7% in December 2010. This figure is not only the highest among all CIS member countries but also extremely high by global standards. The government has been trying to clear the balance sheets of banks in previous years. In 2011, the government planned to establish a “fund of stressed assets,” to which banks would transfer about 900 billion tenge worth of assets in the form of non-performing loans mainly secured by real estate. The government also planned to abolish the tax on the write-off of NPLs, which was expected to be one of the steps towards the recovery of the banking system. The NBRK believes that the issue of problem loans should be resolved within the next 1.5 to 2 years.

About one-third of the total volume of government expenditure is financed by oil revenues - transfers from the National Oil Fund plus export duty on oil. The condition of the state budget, like in other resource-exporting countries, is directly dependent on the situation in the oil sector. We expect that in the mid-term there will be a generally favorable fiscal situation in Kazakhstan; but whether this occurs is totally dependent on the situation in the oil sector.

In the second half of 2011, Kazakhstan saw inflation pressure decrease, but the rise in prices was still near the upper limit of the target corridor of 6 to 8% that had been set by the NBRK. Inflation may accelerate in 2012 due to the government’s plans to raise pensions by 9%, and other social payments by 7%, as well as due to the expected reduction in Russia’s oil export to Kazakhstan from 7 million to 6 million tons in 2012, which may lead to fuel shortages. International organizations, on average, predict an inflation rate of 8.7% in 2011 and 8.3% in 2012. The EDB also expects that the inflation rate in 2011 would be 8.7%, but its inflation forecast for 2012 was lower than the average, at around 6%.
Kazakhstan

Figure 5.1. **Economic growth**: GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the Agency of Statistics of the Republic of Kazakhstan

Figure 5.2. **Foreign trade**: exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

Source: IMF statistics, national agencies, estimates by the EDB

Figure 5.3. **State budget**: accumulated total (in percent of GDP)

Source: the CIS Statistics Committee and national agencies

Figure 5.4. **Monetary sphere**: the left scale is for the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale is for M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 5.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the ADB, the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 5.6. **Savings and investment**: (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
**Trends**

**Kyrgyzstan: Normalization of economic life, acceleration of growth**

The second half of 2011 saw an improvement in the Kyrgyz economy. In the first 10 months there was a year-on-year economic growth of 9% against 5.5% in the first 6 months. The upturn in the economic growth rate was mainly driven by the low base level of the previous year, as well as by an increase in industrial output, which rose by 25.4% compared with the first 9 months of 2010. Agricultural output, trade and construction increased by 2.5%, 6.1% and 8.6% year-on-year, respectively. An upturn occurred in consumption and investment compared with the beginning of the year. Fixed capital expenditures rose by 5% in the first 9 months. Expenditures went toward the restoration of the transport and housing infrastructure damaged during the previous year’s disturbances. The rise in consumption was largely due to cash remittances from migrant workers, which increased by 32.6% in the first 9 months; an increase of the pay of public employees in May; and a pickup in lending.

In Q3 the volume of the loan portfolio of commercial banks grew by 5.1%, with the highest rise of 10.5% being in consumer loans. In terms of industries, the largest borrowers were agriculture - 1.7%, trade - 5.1%, and construction - 1.9%. There was also a decrease in the share of classified loans in the total volume of the loan portfolio, which shrank from 12.3% in June to 11.4% in September.

Foreign trade continued to be largely determined by price factors. The continued rise in gold prices on the world markets stimulated exports, which increased by 8.9% in Q3. On the other hand, high food prices and a rise in demand for consumer goods boosted imports, which rose by 19.6%. According to preliminary data, the country had a foreign trade deficit equaling 36.6% of GDP in the first 9 months. The trade deficit was compensated for by cash remittances from labor migrants ($1.12 billion from Russia and $0.03 billion from Kazakhstan), and foreign direct investments. In Q3 the National Bank’s (NBKR) international reserves decreased by 3.4%, while the national currency strengthened by 0.4% in nominal terms and 0.5% in real terms.

According to preliminary data, in the first 9 months of 2011 the government had a budget deficit of 2.5% of GDP compared with 3.7% in the same period of 2010. In Q3 there was an upward trend in current expenditure, which was due to a salary increase in the public education and health sectors.

There was a drastic deceleration of inflation in Kyrgyzstan. The year-on-year inflation rate fell from 22.7% in June 2011 to 7.2% in November. The fall in inflation was attributed to a decrease in food prices. The National Bank made its contribution to combating inflation by increasing the supply of NBKR notes with an aim of reducing the money supply in the economy. As a result, banks’ excess reserves decreased and the discount rate rose from 5.6% at the beginning of the year to 13.6% at the end of November.
Provided that the recovery of domestic demand continues, Kyrgyzstan’s relatively rapid economic growth is expected to continue. The NBKR has revised its economic growth forecast for 2011 upward to 7.4% from a forecast of 6.6% made at the beginning of the year. The relatively low state budget deficit in the first 9 months reflected the government’s restrained budgetary policy. However, expenditures are expected to rise by the end of 2011 due to the government’s commitments regarding social payments and the pay of public employees. The declining inflation rate causes optimism, which was due to the timely strengthening of monetary policy; the upsurge of agriculture; the revival of trade; and the fall in food prices on global markets. Given the government’s monetary policy efforts, it can be expected that the nation’s monetary authorities will keep control on inflation. The IMF forecasts an inflation rate of 7.5% to 8% in 2011, while the NBKR’s forecast is 6%.

Given the uncertain economic situation in the world, Kyrgyzstan’s GDP is expected to rise by around 6% in 2012 and 2013. Optimistic expectations are based on the upward trend in the volume of cash remittances from abroad, and pessimistic ones are based on the existing signs of recession in the world economy. While the Ministry of Finance of Kyrgyzstan predicts an economic growth of 6.6% in 2012, the NBKR believes that the relatively high level reached in 2011 will result in 2012 GDP growth being around 4.5%. The government expects an inflation rate of 8-9% in 2012, provided there is a moderate increase in food prices; a decline in the population’s inflation expectations; and the absence of serious external and internal shocks.

Like other economies that import energy resources and food, Kyrgyzstan is vulnerable to external negative factors, such as changes in the terms of trade and external financing. The considerable rise in the export of gold, and the volume of cash remittances from labor migrants, produce a favorable effect on the nation’s balance of payments. However the policy of increasing public investment, which is financed through the growth of foreign debt, creates the risk of deterring private investment. According to the 2012 state budget estimates, the government forecasts a budget deficit of 6% of GDP, with 61% of it being financed by foreign loans. The Ministry of Finance plans to borrow some $130 million in foreign loans next year. So the repayment of the gross foreign debt, which amounts to more than 80% of GDP, is to be postponed.

The main condition for sustainable economic development in the near future is a gradual reduction in the trade and budget deficits. In this regard, it is important for the government to keep the national currency’s exchange rate flexible and pursue a balanced macroeconomic policy. Under the IMF’s recommendations, the government of Kyrgyzstan plans to carry out a number of measures in 2012 and 2013 to strengthen macroeconomic stability, and improve the investment climate in the country. The measures include reforming the tax administration system; improving the transparency of government finances; and strengthening the social security system.
Kyrgyzstan

Figure 6.1. Economic growth: GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the National Statistics Committee of Kyrgyzstan

Figure 6.2. Foreign trade: exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

Source: IMF statistics, national agencies, estimates by EDB

Figure 6.3. State budget: accumulated total (in percent of GDP)

Source: the National Statistics Committee of Kyrgyzstan

Figure 6.4. Monetary sphere: the left scale is for the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale is for M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 6.5. Economic growth: GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the ADB, the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 6.6. Savings and investment: (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
Trends

Moldova: Acceleration of growth in industrial sector, slowdown in agriculture

In Q3 2011 Moldova’s economic growth speeded up, with the main driving forces being an increase in domestic demand, a rise in exports, and a rise in lending. In the first 9 months of the year, the nation’s GDP rose by 6.7%. In August 2011 industrial output was 19.4% higher than in August 2010, while in the first 9 months it was 10% up from the same period of 2010. The main contribution to the industrial output growth was traditionally made by the manufacturing industry with a rise of 11.7%, which accounted for 84.7% of the total industrial output. Agricultural output rose by 3.7%, which was largely due to a good harvest, with crop production increasing by 4.4%, and animal production by 2.3%. A sign of economic revival at the end of the summer was a rise in transportation, which increased by 20.6% in Q3 compared with the same period of 2010.

Private consumption rose, supported by cash remittances and growing wages. An 11.3% year-on-year rise in investment reflected the private sector’s increased confidence in the growing capability of the business sector. The structure of investment was dominated by purchases of machines, equipment and vehicles, which accounted for 49.6% of the total investment. The rise in exports, which was caused by increased external demand for finished and farm products, and a favorable price situation, slightly slowed down in Q3. In Q3 exports rose by 5.3% quarter-on-quarter against 9.1% in Q2. Despite the increase in exports, the nation still had a rather large current account deficit as the high domestic demand led to a rise in the import of consumer and investment goods. Moldova’s trade deficit rose by 11.6% in Q3 compared with Q2, reaching about 35% of quarterly GDP. The growing inflow of cash remittances, which accounted for some 14.5% of the nation’s GDP in the first 9 months of the year, helped finance the trade deficit.

In Q3 2011 a decline in the government’s revenues relative to the general economic growth led to a reduction in expenditures. The decreased revenues in the first 9 months caused a higher-than-projected budget deficit of 2.3% of GDP, which was higher than in the same period of 2010.

In August 2011, the year-on-year rise in consumer prices reached its peak at 9.2%. This prompted the National Bank of Moldova (NBM) to strengthen its monetary policy and raise the base refinance rate by two points to 10%. This contributed to the deceleration of money growth from 21.2% in June to 16% in October, and a decline in inflation to 8.9% in November. In November, the NBM again lowered the refinance rate (to 9.5%), which kept the inflation rate unchanged at 8.9%. Given the loosening of the monetary policy, the government will have difficulty meeting its target of keeping the inflation rate within the range of 3.5% to 6.5%.
Outlook

Moldova: Favorable outlook, risks due to lack of external sector balance

We expect that the Moldovan economy’s high growth rate will extend into 2012. This will be due to the growing volume of cash remittances from labor migrants, and increases in exports and investments. The main factor determining the favorable development of the nation’s economy will be the economic situation in Moldova’s major trading partners, including Russia, Ukraine, Romania and other EU countries. It will determine the inflow of cash remittances and investment resources. After the release of positive statistical data for the first nine months of 2011, the IMF raised its GDP growth forecast for 2011 from 5% to 7%, while the forecast of EBRD was increased from 5.5% to 6%. However, owing to the deterioration of the economic situation in Europe, the IMF and the EBRD lowered their forecasts for 2012 from 4.8% to 4.5% and from 4.5% to 4%, respectively. It can be expected that Moldova’s inflation rate in 2011 will be around 6.5%, and will remain at this level in 2012 provided favorable trends continue.

Despite the rise in exports and cash remittances, the external sector deficit (Moldova had a current account deficit of about 10% in 2010) will remain considerable. The population’s growing income has caused an increased demand for imported goods. Evidence of this is in the real strengthening of the national currency, which gained 5.4% since the end of 2010. In this regard, a more flexible exchange rate policy on the part of the NBM could be justified.

The fiscal situation continues to be trouble free, and it can be expected that the government will manage to meet its target of keeping the budget deficit below 2% of GDP in 2011. Under the IMF’s recommendations, the government plans to increase social spending next year provided it retains proper control over the collection of taxes. The government plans to spend about 40.5% of all expenditures on social security, education and healthcare. The authorities also intend to amend regulations for improving the collectability of VAT. The government has set itself the target of keeping the budget deficit at 0.9% of GDP in 2012. An increase in budget revenues is expected to be ensured through tax reform, which provides for reestablishing a corporate income tax with a rate of around 12%, as well as changing excise tax rates and establishing a VAT refund system for investment goods. This policy is expected to allow the government to curb domestic demand, keep control of inflation and, possibly, narrow the trade deficit. Apart from the tax reform, the government intends to continue its effort to restructure debt and carry out structural reforms to improve the investment climate. However, the predicted slowdown of economic growth in 2012 carries a potential risk of failure to meet the revenue target, which may engender a need for expenditures adjustment.

The average GDP growth forecast for 2011 is 5.7%

Economic growth is expected to slow down in 2012 due to the deterioration of the economic situation in Europe

The government plans to take a number of measures in 2012 to improve the collection of taxes, and forecasts a budget deficit of 0.9% of GDP

The population’s growing income following a rise in cash remittances has led to an increased demand for imported goods
Moldova

Figure 7.1. **Economic growth**: GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the National Bureau of Statistics

Figure 7.2. **Foreign trade**: exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

Source: IMF statistics, national agencies, estimates by the EDB

Figure 7.3. **State budget**: accumulated total (in percent of GDP)

Source: the CIS Statistics Committee and national agencies

Figure 7.4. **Monetary sphere**: the left scale is for the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale is for M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 7.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 7.6. **Savings and investment**: (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
Russia: GDP growth acceleration, inflation decline

Q3 2011 was generally successful for the Russian economy, especially considering the relatively poor results in Q1 and Q2. There was an appreciable increase in GDP, it rose 4.8% compared with Q3 2010. In Q1 and Q2 the GDP rose by 4.1% and 3.4% year-on-year, respectively. The economic upturn was fueled by the revival of consumer demand, which was caused by an increase in bank lending. A considerable contribution was also made by retail trade. Investment demand rose simultaneously, which led to the resumption of a rise in construction, which had stagnated since the drastic slump in late 2008 and in 2009. A considerable rise occurred in the agricultural sector, which recovered its production level, before the drought of 2010. Industrial output slowed down in Q3 after a steep rise in the first half of the year. There was a relatively low growth rate in the mining industry.

Inflation considerably decelerated during Q3. The 12 month growth rate of consumer prices fell from 9.6% in April-May to 7.2% in September. The contributing factors included: a considerable fall in food and energy prices, which began in the spring; and the simultaneous strengthening of monetary policy by the Bank of Russia.

The budget implementation results of the first three quarters of 2011 turned out much better than the forecasts made at the beginning of the year. As a result of the relatively high prices of exported resources, as well as an upturn in economic activity, the government’s revenues exceeded the forecast figure. In the first 9 months, there was a federal budget surplus equaling 3% of GDP. According to the government’s most recent forecast, the federal budget will continue to have a surplus of at least 0.5% of GDP in Q4 2011.

Russia’s balance of payments also remained positive. There was reported a current account surplus of $17.3 billion in Q3, which was equivalent to about 3.5% of the quarterly GDP. The outflow of capital from Russia, which is the other side of the remaining current account surplus, turned out larger than economists had expected. Due to the crisis in the Eurozone, foreign investors were increasingly withdrawing their capitals from emerging markets, including Russia. The ruble weakened against the US dollar and Euro in August and September, and the central bank intervened to support the currency.

Banks considerably increased their lending. At the end of Q3, their total lending to individuals was 22.3% higher than in Q1, up from 10.3% at the end of Q2. The rise in lending was not affected by a considerable increase in the cost of borrowing in the interbank market; which was apparently caused by the outflow of capital from the country, and the subsequent reduction of the volume of liquidity in the banking sector. A manifestation of this process was a rise in interest rates on deposits in the latter half of 2011.
Outlook

Russia: External risks, transition to steady growth

Developments in the Russian economy in 2012 and 2013 will be determined by a number of factors, whose overall effect cannot be accurately predicted. It is most likely that GDP will retain the Q3 2011 growth rate during Q4. This will be supported by considerable budgetary disbursements in Q4 2011, as well as a seasonal increase in consumer activity. We expect Russia’s GDP to rise by slightly more than 4% in 2011.

In the near future, Russia’s economy may be negatively affected by the recession that is likely to hit the Eurozone and, possibly, the United States. At present it seems that the deterioration of the world economic situation may influence Russia’s financial sector. This is manifested by: the outflow of capital from the country, which proved to be much larger than expected; and by banks finding it more difficult to gain access to liquidity. These trends in the financial sector will most probably slow the rise in lending and economic growth during Q1 and Q2 2012. In the more distant future, Russia can be expected to return to steady economic growth due to the relatively high export price of its energy resources (see, for example, the International Energy Agency’s World Energy Outlook). We expect that Russia’s economic growth will be around 5% in 2012, provided no dramatic events occur in the country. If there are unfavorable developments in the world economy, such as the price of Brent crude oil remaining at $90/barrel during 2012, then Russia’s GDP growth rate will slow down to 2% - 3% growth.

The Russian government’s 2012-2014 budget estimates provide for a considerable increase in spending, including: expenditure on social security; pay increases for public employees; and defense and infrastructure programs. Due to this, there may be a temporary reverse of the upward trend in fiscal consolidation that followed the drastic loosening of budgetary policy in 2008 and 2009. According to the Russian finance ministry’s forecast, the state budget deficit will amount to more than 1% of GDP in both years.

The Bank of Russia’s relative success in combating inflation in 2011 will probably continue, despite a seasonal acceleration in price rises in late 2011 and early 2012. This will be fueled by the outflow of capital, which increased because of the Eurozone crisis in Q4 2011. Interventions made by the central bank to support the ruble simultaneously helped curb money supply growth in the economy. Weakening pressure on the ruble has an advantageous effect as it makes it easier for the central bank to implement its policy. At the same time it is important that measures aimed at narrowing the range of short-term fluctuations of the ruble’s exchange rate should not turn into control of the rate, which is habitual to the central bank, and should not substitute for the transition to a flexible exchange rate system, and inflation targeting, that has been declared by the monetary authorities.
Russia

Figure 8.1. **Economic growth**: GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the Federal State Statistics Service

Figure 8.2. **Foreign trade**: exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

Source: IMF statistics, national agencies, estimates by the EDB

Figure 8.3. **State budget**: accumulated total (in percent of GDP)

Source: the CIS Statistics Committee and national agencies

Figure 8.4. **Monetary sphere**: the left scale is for the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale is M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 8.5. **Economic growth**: GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 8.6. **Savings and investment**: (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
**Trends**

**Tajikistan: Growth acceleration in agriculture and disinflation**

The trends of the first half of 2011 extended into Q3. The economic growth rate speeded up: the nation’s GDP increased by 7.5% in the first 9 months of 2011 against a rise of 6.9% in the first half. Similar to other economies of the region, a driving force of the economic upturn was a rise in agricultural output, which increased by 9.1% year-on-year in the first 9 months. However, the growth rate of industrial output continued to fall, slowing down to 5.5% year-on-year. Apart from agricultural and industrial output, a contribution to the economic growth was made by a considerable rise in construction (10.4%) and the services sector (13.1%).

The rise in consumer prices, which drastically increased in 2010 and the first half of 2011, began to decline in Q3. The yearly rate of inflation, which reached 14.8% in May, decreased to 10.2% in November. The deceleration of inflation was mostly due to a fall in food prices: the rise in consumer prices in the middle of the year was largely caused by an increase in the prices of imported wheat, flour and fuels. Monetary factors also did have a role in the inflation process. The year’s growth rate of the broad money supply fell from 82.1% in July to 43.2% in October. Despite the decrease in inflation pressure, the National Bank of Tajikistan raised the refinance rate by one point to 10% in October.

The inflation process slightly slowed down the rise in the population’s real income. However, domestic consumer demand continued to increase. A rise of 9% in retail trade was one of the indicators of the increased domestic demand.

An important factor behind the revival of consumer activity were cash remittances by labor migrants, the total volume of which exceeded 45% of GDP in the first 9 months of the year. Given the positive economic dynamics in countries receiving workers from Tajikistan, such as Russia and Kazakhstan, it can be expected that the inflow of cash remittances will increase in Q3 and Q4 2011. However, the trade deficit continued to worsen, as the consumer goods market is mainly supplied with imports. The trade deficit in the first 9 months was 31.3% of GDP, increasing by 23.2% compared with the same period of 2010. The rise in the trade deficit was mainly caused by the rise in the prices of imports, above all energy resources, being more than the rise in export prices. A considerable rise occurred in the import of machinery and equipment (50%), food and plant-growing products (40%), and petroleum products (11%).

In the first 9 months of 2011, bank deposits rose by 40.2% and the total volume of loans rose by 34.1%. The restructuring of the problem assets of two large banks in the second half of 2010 led to a drastic decrease in the profitability rate of the banking sector. At the same time, it helped reduce the total amount of problem assets. Despite the fact that the share of classified loans shrank from 28% in Q1 2010 to 15.6% in Q4 2010, the share of overdue loans in the banking sector’s loan portfolio slightly grew, reaching 16.3% by the end of June, and continued to be large.
Tajikistan: Favorable growth outlook, a need to reduce foreign debt

The trends that existed in the economy of Tajikistan in the first half of 2011 continued in Q3. There was a rise in domestic trade and in the services sector, mainly due to the inflow of cash remittances from abroad. Provided that the prices for the main export goods - aluminum and cotton – stay high, and economic growth in Tajikistan’s major trading partners continues, the government expects a further decline in the inflation rate to 8%, and a GDP growth of 8% in 2012. The IMF is somewhat less optimistic, predicting an inflation rate of 8.5% and a GDP rise of around 6%. According to the IMF’s forecast, the volume of cash remittances will reach the pre-crisis 2008 level in 2011 and continue to grow the following year. The nation’s current account deficit is expected to amount to 6.7% of GDP in 2012.

Given the fact that at present, the dynamics of inflation in Tajikistan generally matches the dynamics of the rise in prices in neighboring countries and are mainly determined by the rise in the prices of food and fuels, one can expect that the inflation rate will slightly exceed the level predicted by the government. An issue of concern is non-performing loans in the banking sector, which may require the National Bank of Tajikistan to devise a set of special measures.

Public investments continue to play a dominant role in the Tajik economy. The contribution of the private sector to investments and savings activities in the country is low and keeps decreasing. The relatively small role of the private sector in the national economy is understandable considering the existing problems with the investment climate, the infrastructure and the banking sector. The government has projected the state budget deficit to be 0.5% of GDP in 2012. Its plans to increase public expenditures are prompted by their stimulating influence on the economy through a multiplier effect. Increased government spending is expected to lead to the improvement of profit expectations in the private sector and fuel investment demand. The level of social spending remains low in Tajikistan. Due to a rise in the collection of taxes and slightly lower expenditure than forecast, there was an improvement in 2011 regarding the state budget balance, with favorable prospects for the end of the year. The government may use the growing revenues to finance increases in pensions, student allowances, and pay in the public sector.

Despite the rise in exports and cash remittances, Tajikistan continues to have a considerable current account deficit, which is financed through external borrowing. The national economy remains vulnerable to negative shocks from both changes in export and import prices, and external financing. Solving these problems largely depends on developments in the world economic situation. If prices for main Tajik exports continue to be high, and there will be a rise in foreign direct investment and transfers from abroad, the nation’s economy can be expected to keep growing at a steady rate.

The IMF expects 6% economic growth in 2012

The inflation rate is predicted to be 8.5% in 2012

The public sector continues to dominate the national economy

An improvement in the situation regarding public finances suggests favorable prospects

The continued external imbalance is the main factor making the economy vulnerable to external shocks
**Tajikistan**

**Figure 9.1. Economic growth:** GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the State Statistics Committee of Tajikistan

**Figure 9.2. Foreign trade:** exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

Source: IMF statistics, national agencies, estimates by the EDB

**Figure 9.3. State budget:** accumulated total (in percent of GDP)

Source: the CIS Statistics Committee and national agencies

**Figure 9.4. Monetary sphere:** the left scale is for the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale is for M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

**Figure 9.5. Economic growth:** GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the ADB, the World Bank, the EBRD, the IMF and the CIS Statistics Committee

**Figure 9.6. Savings and investment:** (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
Trends and outlook

Turkmenistan: Significant economic growth amid high export prices

In the second half of 2011, the economy of Turkmenistan continued to grow at a high rate. The country’s GDP increased by 14.6% in January - September compared with the same period of 2010, speeding up from 14.4% in the first half of 2011. Positive trends were observed in all major sectors of the economy. However, the economic growth rate considerably slowed down compared with the first half of the year. Industrial output in the first 9 months rose by 24.1% against a rise of 42.9% in the first 6 months. There was a rise of 7.8% in the transport and communications sector compared with a rise of 9.5% in the first half of the year; a rise of 12.4% in the construction sector compared with a rise of 17.7% in the first 6 months; and a 0.2% rise in the agricultural sector against a rise of 8.6% in the first 6 months. Fixed capital expenditures rose by 22.9% year-on-year in January - September, with foreign investment accounting for one-third of the total amount. According to forecasts by international organizations, the nation’s economic development prospects for the mid-term remain favorable. In particular, the average GDP growth is forecast at 9.6% in 2011 and at 8.4% in 2012.

In the first 9 months of 2011, Turkmenistan’s foreign trade turnover totaled around $19 billion, increasing by 48.8% year-on-year. The rise in exports outpaced the rise in imports, which was caused, as before, by favorable world prices for the nation’s major export items - natural gas and cotton. The export growth rate accelerated from 64.8% in the first 5 months of 2011 to 73.8% in the 9 months of the year. It is expected that Turkmenistan will increase the export of natural gas in the short-term. In particular, gas deliveries to China through the Central Asia-China pipeline, whose current capacity is 30 billion cubic meters a year, are projected to increase to 40 billion cubic meters in 2012 and to 65 billion cubic meters in 2015 or 2016. Apart from gas exports to China, Turkmenistan is holding gas price talks with Pakistan and India, where Ashgabat plans to deliver gas through the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, the construction of which is expected to be completed by 2015.

State budget revenues in January-September 2011 turned out to be 23.1% above the initial target, while expenditures were 7% below the forecast. Almost 75.8% of all public funds were used to finance the social sector. According to the government’s 2012 budget plans, as in previous years, revenues will mainly come from the oil and gas, chemical, and power generation industries. The government plans to increase social spending and use 76.7% of all revenues in 2012 on social programs.

Despite high economic growth rate, Turkmenistan strongly depends on the export of natural gas, which makes its economy vulnerable to external shocks. Gas accounts for some 90% of the total volume of exports, with Russia being the main importer until recently. The diversification of export destinations and the diversification of the economy in general are extremely important conditions for the nation’s long-term sustainable economic development.
Turkmenistan

Figure 10.1. Economic growth: GDP change (in percent, year-on-year)

Source: the CIS Statistics Committee

Figure 10.2. Foreign trade: exports, imports (in millions of US dollars)

Source: IMF statistics, national agencies

Figure 10.3. State budget (in percent of GDP)

Source: the CIS Statistics Committee and national agencies

Figure 10.4. Monetary sphere: the left scale is for CPI growth (in percent, year-on-year); the right scale is for M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 10.5. Economic growth: GDP growth and forecasts by national and international institutions (in percent)

Source: the government’s forecast, forecasts by the ADB, the EBRD and the IMF

Figure 10.6. Savings and investment: state budget, current account (in percent of GDP)

Source: national agencies, estimates and forecasts by the IMF and the EDB
Uzbekistan’s GDP rose by 8.2% in the first 9 months of 2011 against 8% growth in the first 6 months. As at the end of September, agricultural output increased by 6.8% year-on-year, while industrial output went up 7%. The highest growth rates were in the food industry - 14.7%, the chemical and petrochemical industries - 11.9%, and the machine-building and metalworking sector - 11.8%. In the first 9 months of the year, fixed capital expenditures from all sources of funds rose by 8%, with private investment accounting for 80.1% of the total amount. A 16.2% rise in retail trade, a 16.2% increase in consumer goods output, a 14.2% rise in services provided to the population, and a rise in imports indicated an increased consumer demand from households. The growing domestic consumption was largely due to a 15% increase of pensions, student allowances and the pay of public employees in August 2011.

Uzbekistan’s foreign trade turnover in the first 9 months of the year totaled $18.9 billion, increasing by 21.6% compared with the same period of 2010. Exports rose by 21.4%, with energy resources and petroleum products accounting for 14.5% of the total volume, while imports, 40.6% of which were machinery and equipment, increased by 21.8%. Trade with Russia, which remains the main trading partner of Uzbekistan (accounting for 24.3% of all foreign trade in the first 9 months of 2011), rose by 5.6% year-on-year. By the end of 9 months of the year, Uzbekistan had a trade surplus of $3.8 billion, or 7.3% of GDP.

The nation’s banking sector continued to show signs of stability. In the first 9 months of 2011, banks’ assets grew by 33.5% and their aggregate capital by 30.9% year-on-year. Deposits rose by 48.5%, while loans to the real sector of the economy grew by 35.6%. In particular, the volume of investment loans issued for the modernization and re-equipment of production facilities increased by 34%.

According to forecasts by international organizations, Uzbekistan will retain a high rate of economic growth in the mid-term. This growth will be attributable to favorable world prices for the nation’s exports, and a further expansion of domestic consumption. Measures to increase the role of the private sector will also contribute to the economic growth. In 2012, the government plans to lower the rate of the single tax payment for small businesses from 6% to 5%; reduce by half, on average, the fixed tax rate for sole entrepreneurs in the services sector; and decrease the income tax rate for individuals from 10% to 9%. International organizations, on average, forecast Uzbekistan’s GDP to grow by 7.8% in 2011 and 7.3% in 2012.

The inflation rate was 4.5% in the first 9 months of 2011. There was an increase of social allowances and salaries in October, and the government plans to raise them again in January 2012. There was also an increase of public utility rates in October. These actions can lead to the rapid growth of the money supply and, consequently, an acceleration of inflation. The EBRD has raised its inflation forecast for 2011 from 11% to 13%, while the IMF has changed its forecast from 12.4% to 12.7%.
Uzbekistan

Figure 11.1. Economic growth: GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the CIS Statistics Committee

Figure 11.2. Foreign trade: exports, imports (in millions of US dollars)

Source: IMF statistics, national agencies

Figure 11.3. State budget: accumulated total (in percent of GDP)

Source: the CIS Statistics Committee and national agencies

Figure 11.4. Monetary sphere: CPI growth (in percent, year-on-year), M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 11.5. Economic growth: GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the ADB, the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 11.6. Savings and investment: (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
Trends

Ukraine: Growth acceleration, increased external imbalance

Like most of the economies in the CIS region, Ukraine experienced acceleration in the rate of economic growth in Q3 2011. Its GDP increased by 6.6% year-on-year compared with 5.3% growth in Q1 2011 and 3.8% growth in Q2. As in the first half of the year, there was a high growth rate in the manufacturing sector, especially in machine-building. The agricultural sector’s recovery from the 2010 drought led to a high rise in output. The volumes of private consumption and investment continued to grow at a high rate. At the same time the export growth rate continued to decline due to the deteriorating external economic situation.

The nation’s inflation rate, which remained high during the entire first half of the year, drastically slowed down in Q3. The 12-month rise in consumer prices, which reached 11.9% in June, fell to 5.9% for September. The decline continued in November, ending up at 5.2%. The main factors behind the inflation fall were a decrease in food and energy prices and the outflow of capital, which was caused by a deteriorating crisis in the Eurozone. The latter factor may have had a greater impact on the inflation process in Ukraine than in most neighboring countries because of the national currency’s de facto fixed exchange rate maintained by the central bank.

In the first 9 months of the year, Ukraine made considerable progress in restoring a budget balance. In Q3 the nation had a budget surplus equivalent to about 1% of GDP against a deficit of 8.6% in the same period of the previous year. It is most likely that Ukraine’s state budget deficit in 2011 will turn out to be much lower than the 3.5% level projected by the government at the beginning of the year.

Despite the generally favorable results of Q3, the foreign trade deficit continued to grow. Q3 saw a current account deficit of $2.6 billion against a deficit of $1.6 billion in Q2 and a deficit of $0.98 billion in Q3 2010. The current account deficit in Q3 2011 was financed with the central bank’s reserves. Unlike in the first half of the year, the government’s foreign debt did not grow during the period.

In Q3 2011 banks continued to increase lending to the economy. In Q3 the volume of loans given to non-financial organizations was 4% up from Q2, and 16.6% up from Q3 2010. Growth considerably slowed down in October, which was apparently caused by deterioration in the world economic situation. The growth rate of bank deposits, which was very high in 2010 and the first half of 2011, showed an appreciable deceleration in Q3. The volume of non-financial organizations’ deposits grew by only 2.6% during that period, whereas this volume rose by 5% to 9% a quarter throughout 2010 and the first half of 2011.
Outlook
Ukraine: Recovery of steady growth, end of fixed peg of hryvnia to dollar

Q3 2011 proved to be successful for Ukraine. The economy managed to achieve: a considerable acceleration in the GDP growth rate; substantial progress in curbing inflation, and restoring a budget balance. In our opinion, if there are no disastrous events outside Ukraine, such as a collapse of the Eurozone, one can expect favorable dynamics for the prices of export goods – metals and grain. Economic growth in Ukraine will be given an impetus if investment and the construction sector revive. They are still affected by the 2008-2009 crisis. Economic growth should be fueled by carrying out structural reforms, especially tax reform, which provides for bringing the tax system into line with the Tax Code enacted at the end of 2010.

At the same time, certain features of the macroeconomic policy pursued by the government increase the risk of these opportunities not being used in full measure. This concerns, above all, the de facto peg of the hryvnia to the US dollar. Ukraine’s national currency exchange rate has not changed against the dollar since late 2009. The maintenance of the hryvnia’s exchange rate in the conditions of the incomplete fiscal consolidation process leads to an increase in the trade deficit, which has been on the rise since 2010. Current exchange rate regime will either require a significant tightening of the monetary and fiscal policies or, which is more likely, by adopting of a more flexible exchange rate policy.

As for the near-term outlook, the policy pursued by the government injects unnecessary volatility into the national economy, increasing its dependence on the inflow of foreign capital, which is prone to sudden change. The inflation dynamics in Ukraine throughout 2011 reveals this influence: the price growth rate in the country experienced larger fluctuations than those in neighboring countries. The rise in consumer prices in Ukraine was considerably higher than in Russia until Q4, when it slowed down. There is a probability that fluctuations in the inflow of capital will have a similar effect on the growth of GDP. In this event, the outflow of capital from emerging markets in the fall of 2011 will lead to a greater cooling of economic activity in Ukraine than in neighboring countries in the first months of 2012.

Our opinion is that the best choice for Ukraine, a country that has a large economy and simultaneously rather strongly depends on export and import prices would be to gradually switch to inflation targeting regime of the monetary policy. An alternative to this choice is to strengthen the fiscal and monetary policies, maybe to a greater degree than the government is actually prepared to do now.
Ukraine

Figure 12.1. Economic growth: GDP change by sectors, accumulated total (in percent, year-on-year)

Source: the State Statistics Committee of Ukraine

Figure 12.2. Foreign trade: exports, imports, current account (left scale, in millions of US dollars), real effective exchange rate – REER (right scale, index – Q1 2008 = 100)

Source: IMF statistics, national agencies, estimates by the EDB

Figure 12.3. State budget: accumulated total (in percent of GDP)

Source: the CIS Statistics Committee and national agencies

Figure 12.4. Monetary sphere: the left scale is for the central bank’s rate (in percent) and CPI growth (in percent, year-on-year); the right scale is for M2 growth (in percent, year-on-year)

Source: IMF statistics (IFS), national agencies

Figure 12.5. Economic growth: GDP growth and forecasts by national and international institutions (in percent)

Source: national agencies, estimates by the World Bank, the EBRD, the IMF and the CIS Statistics Committee

Figure 12.6. Savings and investment: (in percent of GDP): balance of private investment and savings (Sp-Ip), state budget (Sg-Ig), current account (X-M)

Source: national agencies, estimates and forecasts by the IMF and the EDB
An economic literature defines an ‘oil shock’ as a drastic change in the price of oil. In most cases, this change means an increase in oil price. Its direct result is an increase in the cost of the production of goods, including goods for final consumption, as well as a rise in oil export proceeds.

The general impact of fluctuations in oil prices on the economy depends, above all, on its structure: theoretically, this impact should be different for nations that have considerable proceeds from oil exports in terms of GDP, and for nations that import oil. Apart from this, the effect of such fluctuations largely depends on the nature of the macroeconomic policy pursued by the government. High oil prices lead to certain difficulties in the implementation of macroeconomic policies in both exporting and importing nations. Periods of high oil prices are, above all, associated with a high inflation rate because the increased inflow of foreign currency makes the national currency strengthen. This leads to non-oil exports losing their competitiveness. If a nation uses a fixed exchange rate system, this exchange rate policy leads to both a loss of the opportunity to control the money supply – and, to a considerable extent, to control lending activity – and to a rise in prices. There are also difficulties in implementing fiscal policy when there are fluctuations in oil prices. The budgets of oil-exporting nations are sensitive to changes in world oil prices. During oil booms, oil exporters receive considerable additional revenues; and enter into commitments that are difficult to meet after the boom is over. The current threat of a global economic recession constitutes a danger for the fiscal sustainability of oil exporters.

Economic literature suggests that a rise in prices is more painful for the world economy than a decline. For instance, a rapid price rise throughout the previous decade may have been one of the causes of the 2008-2009 crisis. The CIS member countries were among those who benefited from a boom in the energy market, and suffered a loss from the price fall in late 2008 and 2009.

The economies of the CIS countries are different in terms of structure. The fact that they performed similarly during the last crisis can be linked to the close links and interdependencies between these countries. The purpose of this insert is to provide a brief survey of the links that are the most important, and can be examined due to reasonable data availability. Economic research, such as the IMF (2000); Downes (2007); and Alturki, Espinosa-Bowen and Ilahi (2009), identify a few major channels through which fluctuations in oil prices influence the economic growth of CIS member countries (see Figure 1): the trade channel; the channel of cash remittances from individuals employed abroad; and the financial channel.

- Broadly the CIS countries can be divided into two groups: exporters and importers of oil and gas. A rise in oil prices produces a positive effect on the oil-exporters; increases the revenues of extracting companies; and improves their public budgets. At the same time, oil-exporters depend on the level of oil prices. A decline in the price not only negatively affects the revenues of oil-exporters, but the widespread subsidizing of energy prices – at least for households – also leads to the emergence of oil-
exporters being dependent, or quasi-dependent, on oil prices. The situation is different in oil-importing countries. To begin with, manufacturers in importing countries depend on the price of imported oil. In addition, importing countries, as a rule, do not have funds to subsidize energy prices for consumers. That is why consumers in importing countries also feel the consequences of a rise in oil prices.

Figure 1. Channels of influence of oil prices on economic growth

Apart from their direct impact on the foreign trade balance, fluctuations in energy prices affect the proceeds from non-energy exports. Firstly, all CIS countries are exporters of natural resources and/or processing products, the prices of which correlate to a considerable degree with oil prices. As a result, a rise in energy prices is usually accompanied by an increase in the prices of the non-energy exports of CIS countries. Secondly, a rise in oil prices should influence the ‘energy-exporting’ countries’ demand for the products of ‘energy-importing’ countries. This is due to both the wealth of the energy-exporting countries, and the strengthening of their currencies in real terms. As a result, the products of energy-importing countries become more competitive. Alturki, Espinosa-Bowen and Ilahi show that in the case of the CIS countries, the predominating influence is that on revenues from trade with Russia.

- The last oil boom was notable for a rise in cash remittances from oil-exporting countries to oil-importing countries. The CIS was not an exception. For oil importers, the channel of cash remittances prevails over the trade and financial channels (Alturki, Espinosa-Bowen, Ilahi, 2009). According to the estimates made by the World Bank, Tajikistan, Moldova and Kyrgyzstan are among the world’s top five nations in terms of cash remittances from abroad as percent of GDP.

- During periods when oil rises in price, oil-exporting countries become more attractive for investment and draw capital from outside the CIS. Simultaneously, there is a rise in the inflow of capital from the countries where there is a surplus in it, such as Russia and Kazakhstan, into oil-importing countries.

- The global demand for energy products declines when oil prices rise too fast. A drastic fall in the demand for oil above all affects oil exporters.

Source: adopted from Downes (2007)
Figure 2. Oil prices and the economies of the CIS countries: 1995–2010

Oil price (% growth) & GDP (% real growth)

Azerbaijan

Armenia

Belarus

Kazakhstan

Kyrgyzstan

Moldova

Russia

Tajikistan

Turkmenistan

Uzbekistan

Ukraine

Oil price (% growth) & Inflation (% growth)

Oil price (% growth) & CAB (% of GDP)
The impact of the trade and remittance channels of influence on oil prices is reflected in the current account. Figure 2 shows that a rise in oil prices coincides with a strengthening of the balance of payments; this includes the countries that do not have oil reserves. As a numerical description of the interdependency between the percentage change in the price of oil and the current account balance (as percent of GDP), it is natural to use the coefficient from the linear regression of the latter of the two variables onto the former. As can be seen from Figure 2, a 10% increase in oil prices leads to the current account balance in the CIS countries increasing by the equivalent of 0.4% to 2.7% of GDP. This figure is higher for the exporters of oil and gas, i.e. for Turkmenistan, Russia, Azerbaijan and Kazakhstan, but it is also positive for the other CIS countries.

The link between inflation and the oil price growth rate is much less obvious. It is most likely that it depends to a high degree on the macroeconomic policy pursued by the government. For the three countries of Central Asia, the dependence between the oil price growth rate and the inflation rate, strange as it may seem, is actually negative. This group also includes Armenia. Russia performs worse than Kazakhstan and Azerbaijan in sterilizing the effects of the oil price rise on inflation. At the same time Moldova and Belarus, which do not have oil reserves, perform still worse.

It is difficult to measure the degree of the impact of oil prices on the volume of cash remittances. This is due to the lack of data spanning a period of more than a few years. Statistical information from the Russian central bank indicates that the volume of cash remittances influences nominal GDP more than the price of oil per se. A considerable fall in oil prices in 2009 led to an insignificant decrease in the total volume of cash remittances from Russia to CIS countries, as compared with Russia’s GDP. There was a decline in the absolute volume of cash remittances, but its scale was close to the decrease in GDP in nominal terms.

As for the impact of shocks from oil prices on the GDP growth rate, one can conclude from Figure 2 that the economies of all CIS member countries grow faster when oil prices increase their growth rate. The economy of Russia is the most responsive to the influence of a rise in oil prices, whereas the economy of Uzbekistan is the least responsive. The dependence between: the degree of the influence of the oil price dynamics on the country’s economic growth; and the availability of large oil reserves in the country, is relatively weak. Russia and Turkmenistan are among the countries whose economic growth depends to the highest degree on a rise in oil prices. Ukraine, Armenia and Moldova are close to this oil price dependent group, whereas Azerbaijan does not belong to it.

In general, a 10% rise in oil prices leads to GDP increase by 0.008% to 1.4%. If the Central Asian countries are removed from the sample – because the available data is not sufficiently reliable – this range will narrow to between 0.4% and 1.4%.

Literature:
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